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COMMISSIONERS

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2014 MAR 31 P 4:49

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SOUTHWESTERN TELEPHONE COMPANY,
AN ARIZONA CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF
THE COMPANY FOR RATEMAKING
PURPOSES, AND TO INCREASE
RESIDENTIAL RATES AS NECESSARY TO
COMPENSATE FOR THE RATE IMPACTS OF
THE FCC'S USF/ICC TRANSFORMATION
ORDER

DOCKET NO. T-01072A-13-0412

**NOTICE OF FILING POST-
HEARING EXHIBITS**

ORIGINAL

Southwestern Telephone Company hereby files three post-hearing Exhibits:

1. Exhibit A-3 – pro forma results of operations with residential rates at \$14/month and a federal benchmark at \$20.46/month;
2. Exhibit A-4 – pro forma results of operations with residential rates at \$20.46/month and a federal benchmark at \$20.46/month; and
3. Exhibit A-5 – typical total residential rates with base rates at \$14/month, \$19/month, and \$20.46/month.

Respectfully submitted on March 31, 2014.

Arizona Corporation Commission

DOCKETED

MAR 31 2014

DOCKETED BY

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Original and 13 copies filed
on March 31, 2014, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Southwestern Telephone Company
PREPARED MARCH 31, 2014

Exhibit A-3

REGULATED RESULTS OF OPERATIONS FOR TWELVE MONTHS ENDING JUNE 30, 2013
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION - YEAR 2
CURRENT \$14.00 LOCAL SERVICE RATE WITH \$20.46 FCC RATE FLOOR

	TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
1 Local	696,897	-1,863 #7		695,034	0	695,034
2 Universal Service Fund (USF-HCL)	453,594	-180,720 #5,6		272,874	0	272,874
		#1,2,3,				
3 Access Revenues	1,680,585	-31,829 4,6,7		1,648,756	1,158,381	490,375
4 Billing & Collecting	30,135	-78 #8		30,057	12,474	17,583
5 Other Misc., Uncollectible	81,523			81,523	31,364	50,159
6 Total Operating Revenues	2,942,534	-214,290		2,728,244	1,202,219	1,526,025
7 Plant Specific Expenses	592,733	41,420 #10		634,153	269,114	365,039
8 Plant Nonspecific Expenses	260,364	16,969 #7,10		277,333	147,828	129,505
9 Depreciation & Amortization Expenses	933,069	96,223 #10		1,029,292	415,777	613,515
10 Customer Operations Expenses	307,124	14,169 #9,10		321,293	111,003	210,290
11 Corporate Operations Expenses	398,991	22,242 #10		421,233	143,731	277,502
12 Other Operating Taxes and (Income)	54,167	112,255 #9,10		166,422	72,011	94,411
13 Nonregulated Adjustment (Part 69 WBI)		-290,597 #10		-290,597	-290,597	0
14 Total Operating Expenses	2,546,448	12,681		2,559,129	868,867	1,690,262
15 OPERATING RETURN BEFORE TAXES	396,086	-226,971		169,115	333,352	-164,237
16 State Income Taxes (SIT) (6.97%)	26,919	-15,132 #11		11,787	23,235	-11,447
17 Federal Income Taxes (FIT) (35%)	130,482	-75,417 #11		55,065	108,541	-53,476
18 Total Operating Income Taxes	157,401	-90,549		66,852	131,776	-64,924
19 Total Expenses and Income Taxes	2,703,849	-77,868		2,625,981	1,000,643	1,625,338
20 Net Operating Income	238,685	-136,422		102,263	201,576	-99,313
21 Total Year-End Rate Base	3,500,797	0		3,500,797	1,366,096	2,134,701
22 Return on Rate Base (Ln 20 / Ln 21)						-4.7%
23 Estimated Revenue from Local Rate Increase						0
24 State Income Taxes (SIT) (6.97%)						0
25 Federal Income Taxes (FIT) (35%)						0
26 Increase in Net Operating Income						0
27 Net Operating Income After Increase (Ln 20 + Ln 26)						-99,313
28 Return on Rate Base After Increase (Ln27 / Ln21)						-4.7%

ASSUMPTIONS

Used 2012 Cost Study run dated 07/18/2013 for Part 36 separation of expenses.
Separated results based upon frozen 2000 traffic factors
Separated results based upon 6/30/2013 financials, interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions

Southwestern Telephone Company

Prepared March 31, 2014

Exhibit A-4

REGULATED RESULTS OF OPERATIONS FOR TWELVE MONTHS ENDING JUNE 30, 2013
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION – YEAR 2
REFLECTS LOCAL SERVICE RATE INCREASE TO \$20.46

	TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
1 Local	696,697	-1,663 #7		695,034	0	695,034
2 Universal Service Fund (USF-HCL)	453,594	-67,851 #5,6		385,743	0	385,743
3 Access Revenues	1,680,585	#1,2,3, -31,829 4,6,7		1,648,756	1,158,381	490,375
4 Billing & Collecting	30,135	-78 #8		30,057	12,474	17,583
5 Other Misc., Uncollectibles	81,523			81,523	31,364	50,159
6 Total Operating Revenues	2,942,534	-101,421		2,841,113	1,202,219	1,638,894
7 Plant Specific Expenses	592,733	41,420 #10		634,153	269,114	365,039
8 Plant Nonspecific Expenses	260,364	16,969 #7,10		277,333	147,828	129,505
9 Depreciation & Amortization Expenses	933,069	96,223 #10		1,029,292	415,777	613,515
10 Customer Operations Expenses	307,124	14,169 #9,10		321,293	111,003	210,290
11 Corporate Operations Expenses	398,991	22,242 #10		421,233	143,731	277,502
12 Other Operating Taxes and (Income)	54,167	112,255 #9,10		166,422	72,011	94,411
13 Nonregulated Adjustment (Part 69 WBI)		-290,597 #10		-290,597	-290,597	0
14 Total Operating Expenses	2,546,448	12,681		2,559,129	868,867	1,690,262
15 OPERATING RETURN BEFORE TAXES	396,086	-114,102		281,984	333,352	-51,368
16 State Income Taxes (SIT) (6.97%)	26,919	-7,265 #11		19,654	23,235	-3,580
17 Federal Income Taxes (FIT) (35%)	130,482	-38,667 #11		91,815	108,541	-16,726
18 Total Operating Income Taxes	157,401	-45,931		111,470	131,776	-20,306
19 Total Expenses and Income Taxes	2,703,849	-33,250		2,670,599	1,000,643	1,669,956
20 Net Operating Income	238,685	-68,171		170,514	201,576	-31,062
21 Total Year-End Rate Base	3,504,514	0		3,504,514	1,366,096	2,138,418
22 Return on Rate Base (Ln 20 / Ln 21)						-1.5%
23 Estimated Revenue from Local Rate Increase						112,869
24 State Income Taxes (SIT) (6.97%)						7,867
25 Federal Income Taxes (FIT) (35%)						38,751
26 Increase in Net Operating Income						68,251
27 Net Operating Income After Increase (Ln 20 + Ln 26)						37,189
28 Return on Rate Base After Increase (Ln27 / Ln21)						1.7%

ASSUMPTIONS

Used 2012 Cost Study run dated 07/18/2013 for Part 36 separation of expenses.

Separated results based upon frozen 2000 traffic factors

Separated results based upon 6/30/2013 financials, interstate rules, adjusted for Part 64 activities

Working Capital included for all jurisdictions

Exhibit A-5

Customer Bill Impact of Local Service Increase(s)

	Southwestern Tel		
Local Service Rate	\$ 14.00	\$ 19.00	\$ 20.46
AZ USF Surcharge	0.01	0.01	0.01
Federal SLC Charge	6.50	6.50	6.50
Access Recovery Charge (ARC)	1.00	1.00	1.00
Federal USF Surcharge	1.23	1.23	1.23
State 911 Tax	0.20	0.20	0.20
Federal Excise Tax	0.65	0.80	0.84
AZ Sales Tax	0.78	1.06	1.15
County Tax	0.28	0.38	0.41
City Tax	0.35	0.48	0.51
TDD Tax	0.15	0.21	0.23
ACC Tax	0.03	0.04	0.04
Total	<u>\$ 25.18</u>	<u>\$ 30.91</u>	<u>\$ 32.58</u>

Companies may increase ARC rate to \$1.50 effective July 1, 2014.

Federal USF surcharge applies to Fed SLC and ARC charges.